

26 July 1976

South Korea -- Internal

The present form of government dates from 1972, when Pak scrapped the democratic constitution.

He was motivated by concern over:

- The growing strength of the opposition New Democratic Party. In the elections of April 1971 his opponent, Kim Tae Chung, ~~lost by a narrow margin.~~ won 45% of the popular vote.
- Developing signs of a return to the faction-ridden politics that preceded the military coup of 1961.
- The prospects of diminishing support from the United States. His worries here stemmed first from the 1969 Nixon Doctrine and then from the developing Washington-Peking relationship.
- His belief that the ROK would be at a serious disadvantage in talks with a monolithic North if firm controls were not imposed on the domestic scene.

Under the present Yushin constitution, the president

- can serve any number of terms
- controls the national assembly
- has sweeping emergency powers which Pak has used extensively. The best known of the Emergency

Measures -- EM 9 -- prohibits public criticism of the president, government policy, or EM 9 itself.

Pak's government is very much a one-man show

- It depends ultimately on the loyalty of the military, but the military do not themselves play a role in government.
- To keep him in touch with what is going on, Pak depends on his Blue House staff and a handful of close advisers. Right now his most important advisers are Presidential Secretary, Kim Chong-you, and the Head of the KCIA, Sin Chik-su. But Pak makes the decisions.
- Professionalism has become very important at all levels of government -- the economic ministries are run by economists, the legal ministries by lawyers and so forth. Expertise does play an important part in the decision-making process. But once the President has made a decision, his advisers, however professional, tend to tell him what he wants to hear.
- Advisers and others who show signs of becoming too prominent or ambitious are quickly sidelined. This has been the fate of civilians like Kim Chong-pil -- former head of the CIA and until recently Prime Minister. And of senior military like General Yun Pil-yong, former head of the capital security command.

The national police and the KCIA are the principal instrumentalities of internal control. Both of them, particularly the KCIA, also play an important part in keeping the President informed.

-- The KCIA's role is ~~a~~ pervasive ~~one~~. It monitors and sometimes influences the activities of opposition political elements, student groups, and the media.

But Pak's government rests on a good deal more than pervasive controls and the ultimate support of the military.

-- Because fear of the North is still very strong, Pak's belief that stability and order come first is widely shared.

-- The expanding economy has provided increasing benefits for most of the population.

-- The military, the bureaucracy, and the major business elements are generally satisfied that Pak's leadership has served ROK interests and their own.

<sup>even among his supporters</sup>  
Many <sup>^</sup> feel that Park's authoritarianism is too rigid. And <sup>on the verge of</sup> when he seemed likely to precipitate a break with Japan in the fall of 1974, it appeared possible that he would lose the support of the major interest groups. But that crisis passed. And the general view among the elite remains that South Korea cannot

afford the disorder, immobilism, and inefficiency they associate with political party rule.

The opposition is weak and divided

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-- The political opposition centered in the New Democratic Party is fractious [ ] Pak and the KCIA are adept at manipulating these weaknesses.

-- The ground troops of the opposition, and the students, are easily intimidated, ~~are mostly not candidates for martyrdom~~ and their ranks require renewal ~~every~~ ~~on~~ graduation day.

-- The most principled and serious opposition comes from the Christians. Although a distinct minority ( of the population), they are influential because of their important role in the pre-war independence movement and because of the number and quality of their educational institutions. But nevertheless they are a minority, and, for the most part, a very cautious one.

-- The current trial of clergyman and others who have urged the restoration of democracy has attracted a good deal of attention in the United States. But it has failed to spark wider anti-government activity in Seoul.

The record of economic progress has been a remarkable one and President Pak is given a good deal of credit for this. In the past decade

- Real GNP has expanded at a 9% average annual rate.
- Exports have increased on an average of 30% annually. Industrial output has grown by roughly 25%.
- The manufacturing share of GNP has increased from 12% in 1965 to 28% in 1975. Progress has been especially marked in shipbuilding, petrochemicals, petroleum refining, and most consumer goods.
- Since the early 1970s, exports of manufactures have shotup at a 60% annual rate.

As everywhere, the benefits have been unevenly distributed and standards of living are not as high as in Taiwan, for example. But to a significant degree the results of economic progress have filtered down to the factory worker and the peasant.

- Per capita personal income has increased almost five-fold since 1966.
- Farmers have benefitted from higher agricultural prices and adequate supplies of fertilizers.
- Wages are now eight times the 1965 level. However, roughly two-thirds of the gain has been eaten up by inflation; taxes have also made major inroads into take-home pay.

- But in 1976, if the government can contain the inflation rate at the current 10%, real income will increase about 5%.

Because it is heavily export oriented, the ROK economy was badly hurt by the world-wide slump.

- The economy is particularly closely linked with ours and Japan's. We and the Japanese are the ROK's principal trading partners, suppliers of technology, and sources of foreign capital.
- South Korea was also badly hit by the oil price increase. It is almost entirely dependent on imports for its energy sources.

However, South Korea is now leading almost all of the non-OPEC LDC's in the pace of its economic recovery:

- Real growth was 8% in 1975.
- It will probably exceed 9% in 1976.
- In 1975 with export volume up 20%, industrial production expanded by 19%.
- Industrial unemployment fell from 10% in early 1975 to about 6% in the first quarter of 1976.
- This year, so far, export volume is up 65% from the first half of 1975. Consumer goods, especially textiles and footwear, are in the lead.

Overseas sales will probably not maintain this pace in the next six months.

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Trade barriers in importing countries -- especially textile quotas -- will almost certainly have a restraining effect.

- Production capacity limits will also operate as a restraint.

- The present annual rate of increase in industrial production -- 36% -- probably cannot be maintained.

In addition to commodity exports, overseas construction will be playing an increasingly important part in the ROK balance of payments.

- New contracts, almost all in the Middle East, should reach \$2 billion this year, more than double 1975.

The extraordinary surge in exports of goods and services has substantially narrowed Seoul's balance-of-payments gap and bolstered foreign lender confidence.

- Imports have been held down thus far by high inventories, bumper crops in 1974 and 1975, and government policies.

- Import growth <sup>is</sup> likely in the second half, however. This will probably bring the total import bill to \$8 billion in 1976 compared with \$6.5 billion in 1975.

- With exports likely to reach \$7.5 billion, the current account deficit should go at least as low as \$1.2 billion compared with \$2 billion in 1974 and 1975.

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In 1976, Seoul should be able to cover its financial gap -- about \$1.8 billion -- comfortably from

- new medium and long-term credits, with Western Europe a notably larger contributor this year.
- new direct investments
- a reduced interest burden in the current account as the result of repayments of short-term credits.